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FISCAL IMPACT STATEMENT

LS 6720
BILL NUMBER: HB 1749

NOTE PREPARED: Apr 29, 2003
BILL AMENDED: Apr 26, 2003

SUBJECT: Health Insurance

FIRST AUTHOR: Rep. Fry
FIRST SPONSOR: Sen. Miller

BILL STATUS: Enrolled

FUNDS AFFECTED: X **GENERAL**
DEDICATED
X **FEDERAL**

IMPACT: State

Summary of Legislation: (CCR Amended) This bill amends the Indiana Comprehensive Health Insurance Association (ICHIA) law concerning board membership, premium rates, reimbursement rates, pharmacy and chronic disease management programs, prescription drug coverage, eligibility, termination of coverage, and assessments.

The bill requires the Medicaid Drug Utilization Review Board to advise ICHIA concerning chronic disease management and pharmaceutical management programs.

The bill requires ICHIA and the Office of Medicaid Policy and Planning (OMPP) to consider the development of payment programs related to ICHIA and Medicaid coverage and provides for provider reimbursement, assessment determinations, and distribution of net gains following implementation of a payment program. The bill requires OMPP and ICHIA to cooperatively investigate methods to decrease ICHIA hemophilia costs and report to the Legislative Council. It also makes conforming and technical amendments.

Effective Date: Upon passage; July 1, 2003.

Explanation of State Expenditures: This bill makes several changes to the Indiana Comprehensive Health Insurance Association law. These changes are expected to generate more revenue for ICHIA and reduce total expenditures. The net losses of ICHIA (the excess of expenses over premium and other revenue) are made up by assessments on member insurance carriers. Members may, in turn, (1) take a credit against Premium Taxes, Adjusted Gross Income Taxes, or any combination of these or similar taxes; or (2) include in the rates for premiums charged for their insurance policies amounts sufficient to recoup the assessments. To the extent

that this bill increases premiums and reduces expenditures, it may increase revenue to the state. If insurers are assessed an amount less than their tax liability, the state may receive increased tax revenue.

The bill makes the following changes to the ICHIA program. The bill: (1) sets definition of resident, (2) eliminates list of health conditions that automatically qualify an individual, (3) ICHIA Board changes, (4) sliding scale premium implementation; (5) reimbursement rate change; (6) elimination of $25 referral fees for insurance agents, (7) review and implementation of disease management programs, (8) development of a pharmaceutical management program, (9) prescription drug requirements changes - internet/mail order pharmacy, (10) changes eligibility requirements, and (11) changes member assessments.

(1) Sets Definition of Resident: This provision may reduce the number of individuals that are enrolled in the ICHIA plan. Total impact on plan expenditures is unknown. There are approximately 9,800 individuals with ICHIA plans currently. Under current practice, in order for an individual to establish residency, they must reside in the state for at least three months. This bill requires that an individual reside in Indiana for at least 12 months before applying for an Association policy. There is no language in statute currently that automatically discontinues an individual's coverage if they change residency to another state. The contractor for ICHIA conducts investigations of individuals suspected to have changed residency and notifies them that their coverage will expire the following month if they have indeed relocated out of state. This provision may reduce the lag time between when an individual moves out of state and when the policy is canceled. **Cost/Savings:** Cost savings associated with this provision are not known at this time.

(2) Elimination of Qualifying Medical Conditions: Under the current statute an individual does not have to demonstrate an inability to obtain coverage. If an individual has one of several listed conditions, they automatically qualify for ICHIA coverage. The provision in the bill which requires an individual to demonstrate their inability to obtain outside coverage may deter some individuals from obtaining an ICHIA policy. The extent of savings is dependent upon the number of individuals affected. However, given the fact that insurers cannot write waivers of coverage into health insurance policies, it is likely that an individual with one of the current qualifying conditions cannot obtain coverage through a source other than ICHIA, and thus be eligible after a denial of coverage. **Cost/Savings:** The net reduction in policies issued by ICHIA and the associated cost reductions are negligible.

(3) ICHIA Board - This bill adds two additional members to the ICHIA Board: one member representing HMOs and one representing health care providers. **Cost/Savings:** The cost associated with this provision is dependent upon frequency of meetings and costs incurred by the member in attending the meeting.

(4) Sliding Scale Premiums: This provision allows ICHIA to establish different rates for individuals based upon income requirements. The provision: (1) sets premiums at no more than 150% of the average premium rate for that class charged by the five carriers with the largest premium volume in the state during the preceding calender year for individuals with income of less than 301% of the federal poverty level (FPL) for the same size family; and (2) sets premiums at not less than 151% of the average premium rate for that class charged by the five carriers with the largest premium volume in the state during the preceding calender year for individuals with income of more than 350% FPL for the same size family. It is unclear as to what premium shall be required for individuals with income between 302% FPL and 349% FPL. The current blended rate for an ICHIA policy as of September 2002 is $391 per member per month.

Previous analysis indicates that if the premium were increased to not more than 200% of average premium of the largest five insurers that the premium would increase to approximately $510 per member per month. This would probably also reduce the number of individuals with ICHIA policies from 9,800 to approximately

8,220. The total premium collected for the first full year is estimated to be approximately $50 M. The total premium collected for CY 2001 was $31.7 M. The estimated premium collected for CY 2002 is $43.6 M. Based upon this information, ICHIA would collect an additional $6.4 M in premium and have 1,580 fewer policies issued. **Cost/Savings:** It is anticipated that the sliding premium scale would have a similar effect. The increase in revenue and decrease in participants is contingent upon administrative action, as ICHIA staff would be required to set the actual premiums for these groups.

(5) Reimbursement Rate: This provision changes the reimbursement rates for services provided to ICHIA members to a rate that is no more than current Medicare rates plus 10%. This provision should reduce the total claims costs associated with services provided to members. It is important to note that some services may already be reimbursed at a lower level than this new rate (e.g., hemophilia clotting factor). **Cost/Savings:** Total cost savings associated with this provision is contingent upon administrative action.

(6) Elimination of Referral Fees: This bill eliminates the provision that an insurance agent that refers an individual to ICHIA for coverage is to receive a $25 referral fee. Referral fees paid for 2001 totaled $28,090, and referral fees for 2002 totaled $34,675 (through October 31, 2002). **Cost/Savings:** Elimination of this requirement will result in cost savings of an estimated average **$30,000** annually.

(7) Disease Management: This provision requires that ICHIA develop chronic disease management programs. The ICHIA Board shall implement mandatory disease management programs after review of chronic disease management programs for similar populations. This bill requires that an individual participate in a chronic disease management program, if one is approved by ICHIA for a condition the individual receives treatment for. The bill requires that the Board consider recommendations of the Office of Medicaid Policy and Planning Drug Utilization Review Board regarding the development and adoption of pharmaceutical and disease management programs. ICHIA recently signed a contract with an outside company to establish a voluntary disease management program. The voluntary program is estimated to be operational by March 1 and to result in a 5% cost savings. **Cost/Savings:** ICHIA staff estimate that if the disease management program were made mandatory it could result in a 10% cost savings for diseases covered in a program.

(8) Development of a Pharmaceutical Management Program: The Office of Medicaid Policy and Planning Drug Utilization Review Board shall advise ICHIA regarding the development and adoption of a pharmaceutical management program. The ICHIA Board shall implement a pharmaceutical management program after review of other programs for similar populations. The program may not require prior authorization for certain drugs for treatment of HIV/AIDS and Hemophilia. The cost of developing and adopting a new pharmaceutical management program is unknown at this time. It is estimated that the pharmaceutical management program, when fully implemented, will result in a 17%-18% long-term savings on prescription expenditures. **Cost/Savings:** Total prescription expenditures for the period April 2001 to March 2002 were $9.6 M. Based on this data, the estimated savings would be between **$1.6 M and $1.7 M** annually - however, the savings associated with pharmaceutical management program adoption will not be realized immediately.

(9) Prescription Drug Requirements: The bill also contains a prescription drug provision for individuals enrolled in ICHIA. These individuals are required to obtain prescription drugs from an Internet or mail order pharmacy or a pharmacy that agrees to sell a prescription at the same price as the Internet or mail order pharmacy. Individuals are allowed to purchase prescriptions at other pharmacies as well, however, ICHIA shall only reimburse the amount equal to that paid to an approved pharmacy. **Cost/Savings:** Cost savings associated with this provision are not known at the present time and are contingent upon the negotiated

pharmacy rates.

(10) Eligibility Requirement Changes: This bill eliminates the provision that an individual can obtain an ICHIA policy if current group insurance coverage may be canceled. In addition, it eliminates the provision that an individual can obtain an ICHIA policy without any limitations on pre-existing conditions if current group insurance coverage may be canceled. In addition, this bill requires an individual to apply for Medicaid coverage at least 60 days prior to applying for ICHIA coverage. Individuals eligible for Medicaid are not eligible for ICHIA policies. **Cost/Savings:** These provisions may reduce the number of individuals that obtain an ICHIA policy. The total reduction in expenditures associated with these provisions is not known at this time and is contingent upon the reduction of potential enrollees.

(11) Member Assessments - This bill contains several provisions concerning member assessments. The bill requires ICHIA to obtain an actuarial recommendation for developing an equitable method of determining member assessments. The bill states that until another method of determining member assessments is developed that 50% of the net loss is assessed based on an insurer's proportion of total health insurance premiums in Indiana, and 50% of the net loss is assessed based on the insurer's proportion of the total number of individuals with health insurance in Indiana. In addition, the bill contains a provision regarding fund leveraging through Medicaid add-on payments (see below for more detail) that may reduce member assessments. The bill allows for disbursements to non-profit members - up to 50% of assessed amount - if ICHIA experiences a net gain. **Cost/Savings:** The cost/savings associated with this provision are dependent upon the administrative action.

Office of Medicaid Policy and Planning Provisions -

Drug Utilization Review Board - The Office of Medicaid Policy and Planning (OMPP) Drug Utilization Review Board (DUR Board) shall advise the ICHIA Board concerning implementation of chronic disease management and pharmaceutical management programs. The DUR Board is a voluntary body tasked primarily with reviewing pharmaceutical issues for OMPP. **Cost/Savings:** The FSSA could not estimate a fiscal impact regarding potential cost to the DUR Board due to a lack of clarity regarding the type of commitment required. However, the agency stated that if the topics proved to be high-profile, the time and resource devotion could be significant.

Medicaid Add-On Payments - This bill contains provisions for leveraging additional federal Medicaid funding. The bill requires ICHIA and OMPP to consider using all or part of assessments made to insurers and state funds associated with assessments as the nonfederal share of payments for Medicaid add-on payments to providers. These additional payments to providers could result in provider payments into the ICHIA program. The bill contains language detailing how additional federal financial participation shall be used. **Cost/Savings:** Total additional revenue is dependent upon administrative action, provider agreements, and federal regulations and approval. Total projected assessments for CY 2002 are approximately $80 M. Total additional federal funds that could be leveraged based upon this amount are an estimated $130 M. This additional revenue could be used to pay some of the claims expenses for ICHIA members. Actual additional revenue may vary.

Hemophilia Cost Reduction - This provision requires OMPP and ICHIA to review methods of decreasing ICHIA costs related to hemophilia coverage for ICHIA members. Options considered may include the potential to apply for a Medicaid demonstration waiver for individuals with hemophilia that meet certain requirements. OMPP and ICHIA must report the findings of this investigation to the Legislative Council not later than December 31, 2003.

State expenditures (tax credits taken by insurers for ICHIA assessments) for individuals with hemophilia that have an ICHIA policy, may decrease by an estimated 62% if the Medicaid plan amendment is approved. This percentage represents the federal reimbursement rate for Medicaid recipient services. The extent of this reduced expenditure is unknown. Several factors contribute to the difficulty in calculating cost: (1) ICHIA has a lower cost for providing clotting factor; (2) Medicaid services are more inclusive than ICHIA benefits; and (3) a demonstration waiver must be cost neutral to the federal government. **Cost/Savings:** Unknown.

State Department of Health - The Department of Health currently pays for approximately 1,300 individuals with HIV/AIDS to be enrolled in the ICHIA program. The state receives approximately $7.8 M from the federal AIDS Drug Assistance Program (ADAP) and Title II of the federal Ryan White Care Act. The premium increase proposed in this bill may decrease the number of individuals that the Department can enroll in ICHIA with current federal funding. [Note: The individuals in the ADAP program could also be enrolled in the MedWorks program or Medicaid, depending upon income and disability status.]

Background on ICHIA: All carriers, health maintenance organizations, limited service health maintenance organizations, and self-insurers providing health insurance or health care services in Indiana are members of the Indiana Comprehensive Health Insurance Association. ICHIA is funded through premiums paid by individuals obtaining insurance through ICHIA, by assessments to member companies (excluding self-insurers preempted by ERISA), and the state General Fund. Under current eligibility guidelines Indiana residents must show evidence of: (1) denied insurance coverage or an exclusionary rider; (2) one or more of the "presumptive" conditions such as AIDS, cystic fibrosis, or diabetes; (3) insurance coverage under a group, government, or church plan making the applicant eligible under the federal Health Insurance Portability and Accountability Act (HIPAA); or (4) exhausted continuation coverage (e.g., COBRA). Premium rates must be less than or equal to 150% of the average premium charged by the five largest individual market carriers.

The net losses of ICHIA (the excess of expenses over premium and other revenue) are made up by assessments on member insurance carriers. Members may, in turn, (1) take a credit against Premium Taxes, Adjusted Gross Income Taxes, or any combination of these or similar taxes; or (2) include in the rates for premiums charged for their insurance policies amounts sufficient to recoup the assessments. Total expenses for the ICHIA program for CY 2001 were $93.1 M with premium contributions of $31.7 M and assessment receipts of $61.4M. Enrollment in the ICHIA program as of August 2002 was 9,779. Based upon data presented to the State Budget Committee, the assessments for 2003 are projected to exceed the $100 M threshold by approximately $5.6 M. The Executive Director of ICHIA stated that new cost control mechanisms put in place in recent months may control total program costs.

Beginning October 31, 2002, insurers are required to report the amount of assessments paid and tax credits taken each year. Data from CY 2001 is currently incomplete. However, preliminary data indicate that ICHIA assessments in 2001exceeded tax credits taken by approximately $10.3 M.

ICHIA Assessments

Year	Assessment	Percent Change
1997	$18,791,177	10.48%
1998	$25,907,143	37.87%
1999	$24,130,087	-6.86%
2000	$34,816,164	44.29%
2001	$61,406,500	76.37%
2002*	$79,127,224	28.86%
2003*	$105,574,277	33.42%

* Estimates based upon data presented to State Budget Committee by Connie Brown, MPlan, 11/12/02.

Explanation of State Revenues: See *Explanation of State Expenditures*.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Indiana Comprehensive Health Insurance Association; FSSA, OMPP; State Department of Health.

Local Agencies Affected:

Information Sources: Doug Stratton, Executive Director, ICHIA, 317-877-5376; Testimony of Connie Brown of MPlan to the Budget Committee on November 12, 2002; Zach Cattell, State Department of Health, 317-233-2170.

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